INTRODUCTION

It was during this three year period that the dispute came as close as it ever did to causing a rift in American–European Community relations. The Airbus consortium had launched three aircraft programmes (A300, A310 and A320) in relatively quick succession and was now planning to undertake another. It was doing this without any clear indication that the existing programmes were making any money for the consortium. American anger at this development was intense. To compound matters, for the first time in the dispute, the proposed Airbus aircraft threatened the viability of a new US project, the MDC MD-11.

Given the American industry and government’s deep anger, the question that we must consider is: why didn’t the dispute escalate into trade war? More pointedly, why didn’t the US bring sanctions to bear on a firm, Airbus, which it strongly suspected of trading in violation of both US law and the GATT Aircraft Agreement?

The EC resisted American pressure to cancel the new A330/340 because it knew that cancellation of those projects would damage the long term viability of the consortium. This in turn would jeopardize Europe’s position in the key high-technology sector of civilian aerospace. Cancellation of the A330/340 would bring enormous benefits to the US; its firms would regain their domination of the civilian aerospace market. In short, the EC was determined to secure Airbus’ place in the commercial market.

Nonetheless why, given the American interest in restraining Airbus, did the US fail to stop the development of the A330/340? Critically, it failed to so in large measure because of domestic constraints, not European resolve. The argument presented here is that the trade preferences of the two US airframe firms are central to understanding why trade war did not erupt. Their fear of possible retaliation by the EC for advocating protection made them unwilling to support unilateral measures.

As we have seen, the launch of the A320 was met with determined efforts on the part of American manufacturers to offer their own 150 seat jet. They made a serious mistake in staying with propfan tech-
nology for as long as they did. This delay gave Airbus a two year lead in marketing its A320. Airbus could, and did, claim to have the only ‘all-new’ 150 seat jet on the market. Both Boeing and MDC expressed displeasure about Airbus subsidies, but these complaints tended to be used to bolster the case for greater US government support for research and development for the industry.

One explanation for the relatively mild reaction of the American manufacturers was that the 150 seat market was considered to be so large that all the manufacturers could offer products with a reasonable expectation that sales would be good. Some market studies indicated that the potential market for this type of airliner was 3,000 jets. As the industry benchmark for breakeven is 600 units, officials at Boeing and MDC were not terribly bothered by the prospect of the A320 getting a share of a rather large pie.

However, this would all change in the next market niche to be attacked by Airbus: the long-thin market. In this case the consortium’s products, the A330 and A340, directly threatened a McDonnell-Douglas programme, the MD-11. A crucial difference between the A320 and A330/340 cases is the projected size of the market. The US industry did not feel that the market for long range aircraft could support three competitors. The American manufacturers mounted a very aggressive campaign to get the Europeans to drop their entry into this market. They finally fastened on to the provision of subsidies to Airbus as the major cause of their problems. The US government did finally become involved in a major way, with Commerce and USTR officials spearheading a diplomatic campaign to stop the Airbuses from being developed.

American objections to the new Airbus programmes cannot be understood without reference to the competition between the Lockheed L-1011 and the MDC DC-10 in the tri-jet market during the period 1967–72. American industry and, as importantly, American policymakers regarded the head to head competition between the two planes as a ruinous competition that could not be repeated. This belief shaped American views about the poor commercial prospects for the A330 and A340.

THE MD-11 AND THE A330/340

Even before the A320 made its first flight on 14 February 1987, Airbus Industrie was actively considering launching two closely